

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 SP-03 AID-20 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 COA-02 TAR-02 FEA-02 INT-08 DRC-01 /151 W
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FM AMEMBASSY QUITO

TO SECSTATE WASHDC PRIORITY 0799

UNCLAS QUITO 2684

E.O. 11652: N/A

TAGS: EIND, EFIN

SUBJECT: FOREIGN INVESTMENT CLIMATE

REF: A) QUITO 2534 B) GUTHRIE/HEMENWAY TELECON, APRIL 22, 1974

1. TEXT OF STATEMENT INCORPORATING REQUESTED REVISIONS IS AS
FOLLOWS:

2. BEGIN TEXT: ECUADOR IS MODERATELY ATTRACTIVE FOR U.S. PRIVATE INVESTMENT. ECUADOREAN LAW RAISES FEW BARRIERS AND OFFERS NO SPECIAL INCENTIVES TO FOREIGN INVESTMENT. THE PRINCIPAL RESTRICTION IS THAT NEW LARGE SCALE INVESTMENT IS RESERVED IN PRACTICE FOR STATE OR MIXED ENTERPRISE IN THE EXTENSIVE AREAS OF NATURAL RESOURCES (HYDROCARBONS, MINING, FISHING), PUBLIC UTILITIES, AND CERTAIN BASIC INDUSTRIES (STEEL, CEMENT, PETRO-CHEMICALS). THE STRICTNESS OF GOVERNMENT TERMS VARIES ACCORDING TO THE PERCEIVED NEED FOR ADDITIONAL FOREIGN INVESTMENT. IN THE AREA OF HYDROCARBONS, WHERE THE BULK OF PRESENT FOREIGN INVESTMENT IS CONCENTRATED, MODEL CONTRACTS ARE TOUGH ENOUGH TO DISCOURAGE MOST INTERESTED INVESTORS. ON THE OTHER HAND, THE GOVERNMENT APPEARS WILLING TO BE ACCOMMODATING IN THE GROWING FISHERIES INDUSTRY.

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3. SINCE THE LARGE ATTRACTIVE INVESTMENT OPPORTUNITIES TEND TO

LIE IN THESE AREAS, DECISION 24 OF THE TREATY OF CARTAGENA HAS BEEN A MINOR FACTOR IN INVESTMENT DECISIONS THUS FAR. WHILE DECISIONWR HAS BEEN IN FORCE SINCE JUNE 30, 1971, FEW IMPLEMENTING REGULATIONS HAVE BEEN ISSUED. A WAIVER OF THE MORE RESTRICTIVE REGULATIONS CONTAINED IN ARTICLES 40-43 OF DECISION 24 HAS BEEN ISSUED.

4. REGARDING SECTORS NOT RESERVED FOR STATE OR MIXED ENTERPRISE, THE GOVERNMENT HAS ACTED TO INCREASE INCENTIVES AVAILABLE TO DOMESTIC AND FOREIGN INVESTORS ALIKE. THE CUSTOMS TARIFF THAT TOOK EFFECT IN APRIL 1974 REDUCED DUTIES SHARPLY ON RAW MATERIALS AND CAPITAL GOODS; ACCORDING TO THE GOVERNMENT, THE NEW SCHEDULE MARKED THE TRANSITION FROM A REVENUE TARIFF TO A PROTECTIVE TARIFF. SOME TAX RELIEF IS AVAILABLE FOR INVESTMENT IN CERTAIN INDUSTRIES AND IN LESS DEVELOPED REGIONS. MANY U.S. FIRMS CARRY OPIC'S RISK INSURANCE; HOWEVER, ECUADOR HAS NOT APPROVED NEW APPLICATIONS FOR OPIC INSURANCE FOR SEVERAL YEARS.

5. ECONOMIC CONDITIONS ARE MORE FAVORABLE TO INVESTMENT NOW THAN AT ANY TIME IN ECUADOREAN HISTORY. AS A RESULT OF NEW PETROLEUM WEALTH, FOREIGN EXCHANGE IS ABUNDANT, THE CURRENCY SOLID, AND THE CHIEF BARRIERS TO GROWTH HAVE BECOME THE DIFFICULTY OF OBTAINING RAW MATERIALS AND A SCARCITY OF HUMAN AND PHYSICAL CAPITAL IN THE COUNTRY. THE MODERN MANUFACTURING SECTOR IS STILL RELATIVELY SMALL, AND THE RAPID GROWTH OF RECENT YEARS IS GENERATING MANY NEW INVESTMENT OPPORTUNITIES. WAGES HAVE BEEN LOW AND U.S. FIRMS GENERALLY ENJOY GOOD LABOR RELATIONS. IN RESPONSE TO UNACCUSTOMED INFLATION, HOWEVER, THE GOVERNMENT MAY DECIDE TO ENCOURAGE WAGES TO RISE. END TEXT.
BREWSTER

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